



**Washington Gas
Energy Services**
A Washington Gas Affiliated Company

ORIGINAL

13865 Sunrise Valley Drive, Suite 200
Herndon, Virginia 20171-4661
Phone: (703) 793-7500
Fax: (703) 793-7301

February 7, 2003

BY FedEx

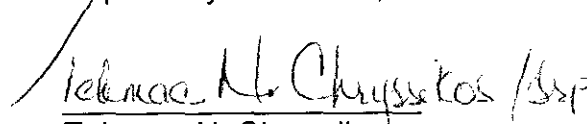
Mr. Joel H. Peck, Clerk
Virginia State Corporate Commission
Document Control Center
Tyler Building, First Floor
1300 East Main Street
Richmond, VA 23219

Re: Comments of Washington Gas Energy Services, Inc.

Dear Mr. Peck:

Filed herewith are an original and 15 copies of the Comments of Washington Gas Energy Services, Inc. in Case No. PUE-2002-00645. Enclosed with this filing are (2) copies of the filing to be file-stamped and return in the self addressed stamped envelope.

Respectfully Submitted,


Telemac N. Chryssikos
Attorney

cc: Service List

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

Ex Parte:

IN THE MATTER CONCERNING
THE PROVISION OF DEFAULT
SERVICE TO RETAIL CUSTOMERS
UNDER THE PROVISIONS OF THE
VIRGINIA ELECTRIC UTILITY
RESTRUCTURING ACT

*
*
*
*
*
*
*
*

Case No. PUE-2002-00645

**COMMENTS OF
WASHINGTON GAS ENERGY SERVICES**

Washington Gas Energy Services, Inc. (WGES) hereby files these comments on the thirteen questions regarding the components of default service that were posed in the "Order Establishing Investigation" issued December 23, 2002 in the above-captioned docket. WGES filed a petition to intervene and statement of interest on January 21, 2003.

Questions Presented

Question (1): What should be the specific components of default service.

Comment. Default service should include at a minimum the components of retail electricity supply service such as transmission (regulated by FERC), ancillary services, distribution delivery, billing and metering. The pricing options and procurement of generation are also important attributes to consider. According to §56-585(A), default service is service "to retail customers who (i) do not affirmatively select a supplier, (ii) are unable to obtain service from an alternative supplier, or (iii) have contracted with an alternative supplier who fails to perform." Thus, default service is intended as a backstop or supplier of last resort service when a customer does not receive a competitive supply

service for the reasons noted. Default service would not be expected to take the form of a competitive utility offering. In addition, the pricing structure should embody certain market sensitivity.

Question (2): Whether, given the virtual absence of competition in Virginia's retail generation market, incumbent electric utilities should continue to provide default service at capped rates at the present time; if so, what changes in statute, policy, infrastructure, market conditions, and/or other circumstances are necessary to allow for the practical provision of default service by an entity other than the incumbent?

Comment. Currently capped generation services serve the function of a default service as defined under §56-585(A) at this time. The existence of wires charges, lack of known stranded cost, slow RTE migration and absence of a wholesale competitive market make it hard for competition to take hold in the state. Therefore, solutions to the aforementioned problems would make it practical for default service to be provided by someone other than an incumbent utility.

§56-585(B) provides that "from time to time, the Commission shall designate one or more providers of default service." The Commission thus has the discretion to select default service providers other than an incumbent electric utility. If it does, the Commission is charged with taking into account "the characteristics and qualifications of prospective providers, including proposed rates, experience, safety, reliability, corporate structure, access to electric energy resources" and other factors necessary to provide a default service (§56-585(B)(1)). The Commission may designate competitive suppliers to provide default service, or one or more components of such service, via "competitive bidding processes" if it finds the public interest will be served (§56-585(B)(2)). If the

Commission does not designate a competitive supplier to provide such service, it may designate a “distributor” or the incumbent electric utility to continue to provide the service, or one or more components of the service, in “one or more regions” of the incumbent’s service territory at rates established by the Commission (§56-585(B)(3)).

The critical policy condition that is necessary for competitive suppliers to be able to bid for default service is the establishment of rates that reflect “prevailing market prices.” §56-585(B) provides the Commission with the authority and discretion it needs to establish such a policy. As noted, current utility prices do not reflect market prices, but reflect regulated generation rates that are below the market while stranded costs are recovered.

Question (3): What should be the geographic scope of a default service provider’s territory, i.e. statewide, incumbent utility service territory, regions served by specific regional transmission entities; divisions with an incumbent’s service territory; major metropolitan and surrounding areas, etc.

Comment. Initially, under current capped generation services, the scope of default service is the incumbent’s service territory. Eventually, the geographic scope of default services in Virginia should be the entire state of Virginia based on bids awarded to competitive suppliers pursuant to retail bidding procedures.

Question (4): Whether default service, as contemplated by § 56-585 of the Act, should be limited to unregulated services, i.e. is it necessary to designate distribution service as a default service.

Comment. Distribution service, or a wires service, should continue to be regulated and a component of default service. As provided in the answer to Question (2)

above, incumbent utility, capped transition services currently operate as default services under §56-585(A). As these services expire, or before if possible, the Commission should act to set utility default services at “prevailing market prices.” As retail competition emerges and suppliers compete to serve consumers in the Commonwealth, the Commission should act under §56-585(B) to enable competitive suppliers to provide default service via retail bidding procedures. The advantage of retail bidding is that all the costs of providing a retail electricity supply service are subject to bidding and competitive forces, while a wholesale bidding process to supply an incumbent who then provides a regulated default service must necessarily identifying and providing for the recovery of regulated billing, metering and other supply-related and non-supply costs.

Question (5): For generation-related default service, whether the separate components of generation service to retail customers (capacity or resource reservation, energy, transmission, and ancillary services) should be treated as separate default services or bundled into a single service.

Comment. The Commission has discretion under §56-585 to design a default service that is a bundled service provided by a single entity or that is broken down by components and provided by multiple entities. A “generation-related default service” is apparently a wholesale supply service with capacity, energy, transmission and ancillary service components. Generation and possibly some ancillary services can be provided pursuant to established, workably competitive markets, and WGES believes the Commission could solicit these components from different suppliers. Transmission is regulated by FERC under open access transmission tariffs. At the appropriate time, capped generation service being provided by incumbents should be replaced with the

solicitation of bids for generation and ancillary services as well as for full retail services. To a retail consumer, the delivered price to the meter is the price to compare that is relevant to competition. Whether default services are provided by one supplier who bundles the components, as is the case now, or whether multiple suppliers provide the various components, the Commission must ensure that a relevant “price to compare” is established that is market responsive.

Question (6): For generation-related default service, whether the service should be delivered to the retail customer or to the incumbent utility.

Comment. As a practical matter, a default service can either be provided by the incumbent utility in which case generation supply is delivered to the incumbent utility’s transmission facilities for redelivery to the customer, or by a competitive supplier(s) who arrange(s) for delivery from generation source to the customer’s meter. The delivery point for the default generation supply thus depends on which entity, the incumbent utility or the competitive supplier, is acting as the load serving entity (LSE) for the regional transmission organization (RTO) operating the interstate transmission facilities.

Question (7): Whether the language of the statute prohibits the provision of default service to an incumbent utility on behalf of a group of customers, i.e. could a third party provide service to an incumbent utility for indirect service to retail customers (service to satisfy load growth, specific localities, or to customer subgroups).

Comment. The language of §56-585(B)(1) and (3) appears to contemplate that the Commission can direct that a default service be provided by an incumbent utility who receives generation supply from a wholesale supplier of electricity. In that case, the utility is the Load Serving Entity. The third party could be a generation affiliate of the

incumbent or an independent wholesale supplier. Affiliate rules established by the Commission should be strictly observed and enforced to prevent a utility from unduly favoring the generation of its affiliate. This concern is minimized but not eliminated if default services are established by retail bidding procedures.

Question (8): Whether the provision of default services should differ by customer class.

Comment. Historically, utilities have grouped services to different customer classes by established rate schedules based on the load characteristics of the classes. Initially, default services should be designed to serve current utility customer classes under existing utility rate schedules until current transition periods expire. After that, retail bidding procedures should be developed to provide default services to customers based on classifications and aggregations that can be served by competitive suppliers.

Question (9): Whether different components of default service can be provided by different suppliers.

Comment. Generation is already a deregulated component and could be provided by different suppliers. Competitive suppliers should eventually be able to provide other components of default services such as metering and direct billing to customer classes now being served by incumbent utilities under current rate schedules. The Commission should develop regulations that will enable different suppliers to serve different rate classes based on access to customer information and load data.

Question (10): Whether default service has the same meaning for different classes of customers, i.e., those who do not affirmatively select a supplier, those who are

unable to obtain service from an alternative supplier, or those who have contracted with an alternate supplier who fails to perform.

Comment. The design and statutory framework for default service should be the same for all customers regardless of the particular reason under §56-585(A) that a customer needs access to a default service. A default service that is responsive to market conditions should be developed for each class of customer. Eventually, retail bidding procedures should be developed to provide default services to each customer class.

Question (11): How should charges for default service be collected.

Comment. Customers pay the service provider on a per kWh basis. Currently, incumbent utilities are collecting for default services that are the capped generation services. If competitive suppliers provide default service, they should be able to collect for the service they provide pursuant to options currently available, either via separate competitive billing or via consolidated billing by the utility.

Question (12): Whether metering, billing and collecting services should be deemed components of default service.

Comment. Metering, billing and collecting services should be separate components of a default service. Eventually, competitive suppliers can include these services under retail bidding procedures. Utilities should continue to offer such services as part of their distribution service obligation until competitive billing, metering and collection service emerge.

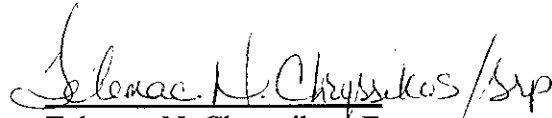
Question (13): What implications would the alternative provision of default service have for the determination of wires charges?

Comment. Under §56-583(A), the Commission is charged with calculating “wires charges” for each incumbent utility since the phase in of customer choice began on January 1, 2002 under §56-77(A)(2) and the Commission is charged with adjusting the wires charges “not more frequently than annually...” §56-582” (§56-583(A)).

Presumably, incumbent utilities are now recovering their net stranded costs via capped generation rates. Since utilities have not yet identified their net stranded costs and are not yet providing wires charges beyond one year, alternate competitive suppliers would find it difficult to provide competitive default services. Until net stranded costs are separately identified and removed from either the capped generation rates or calculated wires charges, or both, the establishment of competitive default services will be problematic in Virginia.

WHEREFORE, WGES asks that the Commission establish final default service rules that reflect the instant comments and the recommendations of the Default Service Work Group established in this proceeding.

Respectfully Submitted,

A handwritten signature in dark ink, appearing to read "Telemac N. Chryssikos /s/".

Telemac N. Chryssikos, Esq.

MaryEllen O'Neill, Esq.

100 H Street, N. W.

Washington, D. C. 20080

(202) 624-6116

macchryssikos@wges.com

Attorneys for:

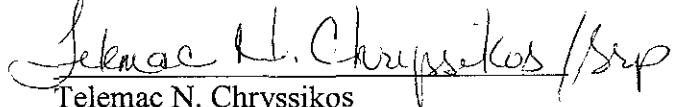
Washington Gas Energy Services, Inc.

13865 Sunrise Drive, Suite 200

Herndon, Virginia 20171-3401

CERTIFICATE OF SERVICE

I hereby certify that on this 7th day of February 2003 that a copy of the foregoing Comments of Washington Gas Energy Services, Inc. was served on the parties on the official service list in Case No. PUE-2002-00645.


Telemac N. Chryssikos
Attorney

Washington Gas Energy Services, Inc.
1100 H Street, N.W.
Washington, D.C. 20080
(202) 624-6116